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Message Text

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21
ACTION EA-14

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 SAM-01 AID-20 EB-11 CIEP-02 TRSE-00 STR-08

OMB-01 CEA-02 COME-00 FRB-02 XMB-07 OPIC-12 LAB-06

SIL-01 AGR-20 ACDA-19 IO-14 INT-08 FEA-02 SCI-06

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E.O. 11652: N/A
TAGS: EGEN KS
SUBJECT: KOREA ATTEMPTS TO STABILIZE PRICES AT A HIGHER LEVEL

SUMMARY: KOREAN GOVERNMENT HAS RECENTLY ANNOUNCED NEW STABILIZATION MEASURES WHICH INVOLVE LARGE PRICE INCREASES, THE POSSIBILITY OF MODERATE WAGE GAINS AND A VARIETY OF DIRECT AND INDIRECT CONTROLS TO LIMIT AGGREGATE DEMAND. ROKG HOPES THIS WILL ENCOURAGE PRICE-WAGE STABILITY BY THE LATTER HALF OF 1974 AND LESSEN POSSIBILITY OF ECONOMIC-BASED POLITICAL DISCONTENT. END SUMMARY.

1. PRICE INCREASES SAID TO AVERAGE 82 PER CENT WERE AUTHORIZED FOR REFINED PETROLEUM PRODUCTS ON FEBRUARY 1. ELECTRIC POWER CHARGES AND TRANSPORTATION FARES WERE RAISED AT THE SAME TIME. THESE WERE FOLLOWED BY AUTHORIZED WHOLESALE PRICE INCREASES ON FEBRUARY 5 FOR 37 INDUSTRIAL AND AGRICULTURAL PRODUCTS, INCLUDING SOME PETRO-CHEMICALS WHOSE PRICES WERE INCREASED ON FEBRUARY 1. MAJOR PRODU-CTS AFFECTED ON AND AFTER FEBRUARY 1 ARE ALL PETROLEUM PRODUCTS (PREMIUM GASOLINE NOW COSTS ABOUT $1.85 PER GALLON RETAIL), ALL
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PETROCHEMICAL INTERMEDIATES AND SOME PRODUCTS, CONSTRUCTION MAT-

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ERIALS (STEEL, LOGS, PLYWOOD, CEMENT, GLASS, EXPLOSIVES), COTTON AND SYNTHETIC FIBERS, PAPER, PESTICIDES, FISH NET, SOAP, SUGAR AND NOODLES.

2. IMPACT OF INCREASES ON WHOLESALE PRICE INDEX IS ESTIMATED AT 16 PER CENT. WPI ROSE 5 PER CENT IN JANUARY 1974 (MONTHALY AVERAGE COMPARISON) OVER DECEMBER. IN 1973 WPI ROSE 15.1 PER CENT COMPARED TO PREVIOUS YEAR END OR 6.9 PER CENT ON ANNUAL AVERAGE BASIS. BULK OF INCREASE IS ATTRIBUTED TO NON-FOOD ITEMS, AND SEOUL CONSUMER PRICE INDEX - WHICH GIVES HEAVIER WEIGHT TO FOOD - ROSE ONLY 7.3 PER CENT ON PREVIOUS YEAREND COMPARISON OR 3.1 PER CENT ON ANNUAL AVERAGE BASIS. AS ROK INDICES TEND TO UNDER-STATE ACTUAL MARKET INCREASES SOMEWHAT, IMPACT ON AVERAGE CONSUMER IS LARGER THAN FIGURES INDICATE.

3. GOVERNMENT NOW TAKES POSITION THAT SOME WAGE RELIEF WILL BE NECESSARY TO SUPPLEMENT THE JANUARY 14TH INCOME TAX RELIEF AND OTHER INCOME DISTRIBUTION MEASURES. AT FEBRUARY 6 PRESS CONFERENCE DEPUTY PRIME MINISTER ENCOURAGED BUSINESSES TO GIVE WAGE RAISES COMMENSURATE WITH PRODUCTIVITY GAINS AND CITED GOVERNMENT'S AVERAGE PAY RAISES OF 10 PER CENT FOR OFFICIALS AND 13 - 15 PER CENT FOR STATE ENTERPRISE EMPLOYEES. LAST YEAR WAGE INCREASES AVERAGED 16 - 17 PER CENT, BASED ON PRODUCTIVITY OR COST OF LIVING ADJUSTMENTS.

4. ALTHOUGH DIRECT MEASURES ARE BEING MAINTAINED AND IN SOME CASES STRENGTHENED, THE PRICE CONTROL SYSTEM IS BEING AMENDED TO GIVE GREATER EMPHASIS TO MARKET FORCES. THESE, IT IS SAID, WILL DETERMINE THE LEVELS OF FINAL PRODUCT PRICES AS THE ITERATIVE EFFECTS OF THE RECENT INTERMEDIATE PRICE CHANGES WORK THEMSELVES OUT.

5. STEPS TO LIMIT AGGREGATE DEMAND INCLUDE MONETARY MEASURES AND CERTAIN INVESTMENT INCENTIVES. MINISTRY OF FINANCE HAS INSTITUTED SELECTIVE CREDIT CONTROL SYSTEM. PRIORITIES FOR BANK LOANS HAVE BEEN ESTABLISHED. FOR SMALL FIRMS MAKING DAILY NECESSITIES FOR AVERAGE CITIZENS, AND INDUSTRIES CONTRIBUTING CONSPIUOUSLY TO INCREASING EMPLOYMENT, EARNING FOREIGN EXCHANGE, ENLARGING AGRIC- ULTURAL PRODUCTION OR EXPLOITING DOMESTIC ENERGY SOURCES. REAL ESTATE FINANCING, EXCEPT FOR PUBLIC HOUSING OR SMALL PRIVATE HOMES, LIMITED OFFICIAL USE

IS PROHIBITED. TIME AND SAVINGS DEPOSIT INTEREST RATES HAVE BEEN TEMPORARILY RAISED; 90-180 DAY ACCOUNT INTEREST IS 12 PER CENT, 180-365 DAY ACCOUNTS BEAR 13.2 PER CENT, AND ACCOUNTS OVER ONE YEAR ARE NOW AT 15 PER CENT PER YEAR. ON THE INVESTMENT SIDE, GOVERNMENT AGENCIES WILL BE MORE RESTRICTIVE IN THEIR FORMAL OR INFORMAL REVIEWS OF NEW PROJECTS, WHETHER BY DOMESTIC OR FOREIGN INVESTORS. NEW CRITERIA FOR INVESTMENT APPROVAL GIVE PRIORITY TO NEW INVESTMENTS WHICH MAKE TECHNOLOGICAL CONTRIBUTIONS, INCREASE

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EXPORT CAPACITY, OR DEVELOP DOMESTIC NATURAL RESOURCES.

6. THE GOVERNMENT WILL ATTEMPT TO COPE WITH SHORT SUPPLY PROBLEMS BY A) EXTENDING DURATION OF MEASURES INTENDED TO EAST ACQUISITION OF RAW MATERIALS; B) ALLOCATION OF PRODUCTION MATERIALS; C) FLEXIBLE ADMINISTRATION OF TARIFF SYSTEM AND FIRST HALF TRADE PLAN, AND D) SIMPLIFICATION OF NOW HEAVILY LAYERED WHOLESALE AND RETAIL DISTRIBUTION SYSTEM.

7. IMMEDIATE REACTION TO GOVERNMENT ANNOUNCEMENT OF PRICE INCREASES HAS BEEN MUTED IN THE PRESS, BUT PUBLIC REACTION HAS BEEN SERIOUS CONCERN ABOUT CLEAR IMPACT ON LIVING STANDARDS AND EMPLOYMENT. THERE HAS ALSO BEEN SPECULATION IN POLITICAL CIRCLES ABOUT POSSIBLE POLITICAL IMPACT OF PRICE RISES ON DOMESTIC SCENE SHOULD STUDENT AND OTHER PROTEST ACTIONS RESUME IN SPRING. NDP, SEEKING TO DEMONSTRATE PUBLICLY CONCERN WITH SITUATION, HAS BEEN PRESSING FOR REOPENING OF NATIONAL ASSEMBLY TO DISCUSS EMERGENCY PRICE AND ECONOMIC MEASURES. SO FAR, ROKG IS ONLY PERMITTING TWO-DAY SESSION OF FOUR STANDING COMMITTEES TO DEAL WITH COMMODITY PRICE HIKES, OIL, TRANSPORTATION AND COST OF LIVING.

8. COMMENT: THE SEVERAL MEASURES ADD UP TO A FAIRLY STERN PROGRAM, WITH SOME FLEXIBILITY, BY WHICH THE ROKG HOPES TO CURTAIL DOMESTIC DEM

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